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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 005475

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SUBJECT: THE RUSSIANS ARE COMING, WITH AN AMERICAN ASSIST

Classified By: Econ MC Eric Schultz for Reasons 1.4 (b/d)

Summary

11. (C) Andrew Paulson, an expatriate American businessman in Moscow told Econ MC November 12 that his Russian-based internet company, Livejournal.ru, was preparing to purchase the U.S. version of Livejournal, from which it had sprung eight years ago. Paulson said the USD 100 million or more purchase was the first of an American media company by a Russian company. End Summary.

An American in Moscow

12. (C) Paulson said he came to Moscow 14 years ago from Paris with a background in publishing, a few dollars to invest, and very little Russian. He subsequently opened three magazines in Moscow: a culture magazine, a travel magazine, and a city guide. All three magazines were geared toward Moscow's affluent young, and all of them were quite successful. He sold the magazines two years ago for a substantial profit and decided to invest in the internet.

13. (C) Paulson said he used the proceeds from the sale of the magazines along with funds from Russian investors to finance the purchase in 2005 of "Livejournal.ru," which he described as a "social network." According to Paulson, the original Livejournal is a popular website in the United States. One of its owners established the Russian off-shoot in 1999. However, Paulson said the site had been neglected by its previous owners, who had failed to see its potential, and he was able to acquire it at a discount.

14. (C) Paulson said Livejournal.ru now averaged 7 million hits a month, making it the fourth most frequented site in Russia. Moreover, the first three sites were search engines, making Livejournal.ru the most popular content site in Russia. The site was an entirely neutral platform when it came to content: it had 85-90 weblogs on the site, some political but the majority cultural. It was also free, requiring only that users register and sign in. Livejournal.ru made its money off of advertising. Paulson noted that the company also made money off of not advertising, noting that for USD20 a month the site's clientele would be able to block all advertising.

Ready to Expand -- Into the U.S.

15. (C) Paulson said livejournal.ru had been so successful that he was now moving to purchase the U.S. site from which it had sprung. The purchase of Livejournal.com, which would be for in excess of USD 100 million, was to be announced at the beginning of December. It would mark the first time that a Russian media company had invested in the United States.

The Internet and Media Freedom

16. (C) Paulson observed that the internet was the last bastion of free media in Russia. His theory as to why it was allowed to operate without interference was that the government monitored Livejournal.ru and similar sites in order to keep abreast of public opinion. In addition, he maintained that the Putin government was secure enough to let an elite phenomenon like Livejournal.ru operate without interference, whereas anything that appealed to the masses, such as newspapers and especially television, they were quick to control. He argued that a final factor was that unlike in China it would be extremely difficult for the GOR to censor the internet in Russia given how integrated it was with the internet in Europe.

17. (C) Paulson added that it was a point of pride for him that he never took any payment for content for any of the magazines. He recounted a story of printing a critical review of a restaurant with mafia links and being threatened by the manager. Paulson said he arranged a meeting with the Mafioso who owned the restaurant who read the review, turned to his manager and said "But it's all true. Fix it!" Paulson said he insisted that even his shareholders had no

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control over content, a practice he has continued in his current venture and that will extent to his company's new acquisition.

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